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Message Text

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21
ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 FRB-03 XMB-02 NRC-05 PA-01 PRS-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

EB-07 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-04 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 /108 W
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USIA WASHDC
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AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION OECD PARIS
USMISSION GENEVA
USDEL MTN GENEVA
USMISSION EC BRUSSELS

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SUBJECT: PROFESSOR PAUL SAMUELSON DISCUSSION WITH EC AND BELGIAN
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1. IN CONNECTION WITH A VISIT TO BELGIUM TO RECEIVE AN HONORARY DEGREE AT LOUVAIN-LA-NEUVE UNIVERSITY, PROFESSOR SAMUELSON PARTICIPATED IN A LUNCHEON DISCUSSION HOSTED BY DCM ON SEPTEMBER 23. GUESTS INCLUDED EC COMMISSIONER HENRI SIMONET, BELGIAN FINANCE MINISTER WILLY DECLERCQ, BELGIAN NATIONAL BANK GOVERNOR CECIL DE STRYCKER, AND SEVERAL OTHER IMPORTANT BELGIAN GOVERNMENTAL AND ACADEMIC FIGURES. NOT SURPRISINGLY, GIVEN THE PERSONALITIES INVOLVED, THE DISCUSSION WAS LIVELY AND WIDERANGING. ITS PRINCIPAL POINTS ARE AS FOLLOWS:

2. U.S. ECONOMY. SAMUELSON SAID THAT THE CURRENT SLOWING OF ECONOMIC REVIVAL IN THE U.S. GIVES CAUSE FOR CONCERN. ALTHOUGH HE IS NOT AMONG THOSE PREDICTING A SLIDE-BACK INTO RECESSION, SAMUELSON BELIEVES THAT FULL RECOVERY WILL NOW NOT BE POSSIBLE BEFORE 1978/79. EVEN THEN, FLATTER GNP GROWTH AND STRUCTURAL UNEMPLOYMENT WILL PROBABLY LEAVE AT LEAST 5 PERCENT OF THE U.S. WORK FORCE JOBLESS.

3. ENERGY. COMMISSIONER SIMONET, WHO HAS HELD THIS PORTFOLIO DURING HIS TERM WITH THE EC, CRITICIZED THE U.S. FOR HAVING NO COHERENT ENERGY POLICY. THE USG WORRIES TOO MUCH ABOUT THE EXTERNAL POLITICAL ASPECTS OF ENERGY ISSUES, HE SAID, AND NOT ENOUGH ABOUT DOMESTIC ECONOMIC EFFECTS WITHIN THE U.S. JACQUES VAN YPERSELE, MINISTRY OF FINANCE INTERNATIONAL COUNSELOR, AGREED, SAYING THAT THE GROWING DEPENDENCE OF THE U.S. ON OIL IMPORTS UNDERMINES DEVELOPED COUNTRIES' WARNINGS THAT OPEC PRICE INCREASES WOULD REDUCE DEMAND AND STIMULATE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES.

4. SAMUELSON EXPRESSED PESSIMISM ON PROSPECTS FOR WIDESPREAD DEVELOPMENT OF NUCLEAR POWER PLANTS IN THE U.S. AND PREDICTED THAT POPULAR OPPOSITION TO THEM WOULD GROW IN EUROPE AS WELL. HE POINTED OUT THAT U.S. WORKER REAL INCOME HAS STAGNATED SINCE 1968 AND COULD, IN FACT, DROP TO ABSORB AN OPEC PRICE INCREASE LATE THIS YEAR (WHICH SAUDI ARABIA WISHES TO LIMIT TO 10 PERCENT, ACCORDING TO SIMONET). GIVEN SUCH FACTORS, SAMUELSON EXPECTS THAT THE ENERGY PROBLEM WILL BE INCREASINGLY DEFINED IN ECONOMIC TERMS, A PROPOSITION WITH WHICH SIMONET AND THE BELGIAN OFFICIALS PRESENT WERE IN AGREEMENT.

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5. INTERNATIONAL FINANCE. SAMUELSON EXPRESSED THE VIEW THAT THE FLOATING REGIME HAS WORKED SURPRISINGLY WELL, PARTICULARLY IN ALLOWING THE INDUSTRIALIZED WORLD TO RIDE OUT ECONOMIC JOLTS AND DIFFICULTIES SINCE 1973. SIMONET WAS LESS ENTHUSIASTIC, BUT SAID THAT FOR THE EC COMMISSION, FLEXIBLE RATES WERE PREFERABLE TO A MOVE TOWARD PROTECTIONISM, WHICH WOULD HAVE BEEN THE ALTERNATIVE IN SEVERAL EC COUNTRIES. DE STRYCKER SAID THAT FLOATING RATES HAD ONLY BENEFITED THE U.S.--THE DOLLAR IS CURRENTLY UNDERVALUED,

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HE AND SAMUELSON AGREED--AND THAT THE WORLD SHOULD RETURN TO FIXED EXCHANGE RATES (DE STRYCKER WAS THE ONLY BELGIAN OFFICIAL PRESENT WHO ADVOCATED FIXED RATES).

6. IN ANSWER TO A QUESTION FROM SAMUELSON ON THE REASONS FOR CONTINUING BELGIAN ADHERENCE TO THE EUROPEAN CURRENCY SNAKE, DECLERCQ LISTED THREE POINTS: (A) THE SNAKE EXERTS AN INTERNAL DISCIPLINE, HELPFUL TO A COUNTRY SUCH AS BELGIUM IN FIGHTING INFLATION; (B) THE SNAKE AS PRESENTLY CONSTITUTED INCLUDES SOME 40 PERCENT OF BELGIUM'S FOREIGN TRADE, THE STABILITY OF WHICH IS ESSENTIAL TO ITS OVERALL ECONOMY; (C) BELGIUM RETAINS A "PERHAPS SENTIMENTAL" ATTACHMENT TO THE SNAKE AS A REMAINING VESTIGE OF ATTEMPTS AT HARMONIZATION OF EC MONETARY POLICIES, CITED AS A MAJOR POINT ON THE ROAD TO EUROPEAN UNITY BY TINDEMANS IN HIS REPORT. VAN YPERSELE ADDED THAT, AS A SMALL AND OPEN PROCESSING ECONOMY DEPENDENT ON FOREIGN MARKETS FOR BOTH IMPORTS AND EXPORTS, ANY DEVALUATION GAINS WOULD BE QUICKLY ABSORBED BY INCREASED INTERNAL COSTS, PLACING THE FRANC ON AN ENDLESS DOWNWARD SPIRAL.

7. IF PARITIES REMAIN FIXED WITHIN THE SNAKE, SAMUELSON ASKED, WHERE AND HOW DO ITS MEMBERS ADJUST FOR VARIANCES IN INFLATION AND PRODUCTIVITY? DECLERCQ RESPONDED THAT BELGIUM MAY HAVE TO DEVELOP "PAINFULLY" THE ANSWER OVER THE NEXT FIVE YEARS. FOR THE PRESENT, DECLERCQ AND SIMONET SAID THEY BELIEVE THAT FRG FINANCE MINISTER APEL "IS VERY FIRM", AND THAT THE WEST GERMANS WILL NOT RPT NOT REVALUE THE DM, EVEN AFTER ELECTIONS. FOR THE FUTURE, DECLERCQ SUGGESTED THAT THE INDUSTRIALIZED COUNTRIES MIGHT MOVE TOWARD A TRIANGULAR SYSTEM OF ZONES (I.E., EC/EUROPE, DOLLAR, YEN), EACH FLOATING FREELY AGAINST THE OTHER, BUT WITH CURRENCIES WITHIN EACH ZONE RELATED TO EACH OTHER BY FIXED PARITIES, INTERNAL TARGET ZONES, OR POSSIBLY OTHER MEANS. FIRESTONE

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